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C O N F I D E N T I A L SECTION 01 OF 03 TALLINN 000223

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SUBJECT: ESTONIA'S NEW GOVERNMENT (PART I): REFORMING
AROUND THE RIGHT

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Classified By: CDA Jeff Goldstein for reasons 1.4 (b) & (d).

¶1. (U) Summary. The Estonian Reform Party has formed a coalition government with like-minded center-right parties, Isamaa and Res Publica Union (IRL) and the Social Democrats (SDE). The coalition agreement, signed by the parties on April 2, reflects Reform's priorities for a pro-active, pro-western foreign policy and liberal, pro-business economic agenda. This cable is the first in a series on the new government. It reports on the make-up of the new coalition and the division of ministerial portfolios among the coalition partners. It also outlines key issues in the coalition agreement. Follow-on cables will provide short biographies on the key figures in the new government and analyze the new government's foreign and domestic policy priorities. End Summary.

A REFORM-ED GOVERNMENT: A CLASH OF PERSONALITIES, NOT POLICY

¶2. (C) On March 29, Reform, IRL and SDE announced formation of a tripartite coalition representing 60 seats in the 101-seat parliament. The coalition agreement was signed on April 2, the same day as the opening of the new parliament. Our IRL, SDE and Reform interlocutors all told us that Reform approached the coalition negotiations from a position of strength, based on its having won 31 seats to IRL's 19 and SDE's 10 (Ref A). Despite differences in election campaign promises, IRL and SDE were willing to accept most of Reform's agenda in order to secure a place government. As a result, negotiations on the new coalition's policy agenda went smoothly and quickly. Problems arose only when it came time to divide up ministerial portfolios. At one point, a tug-of-war between Reform and IRL over the Foreign Affairs portfolio almost put a halt to negotiations. IRL lobbied to secure the

Foreign Ministry
for former Prime Minister Mart Laar. Intent on keeping
current Foreign
Minister (and Reform Party heavyweight) Urmas Paet in place,
and afraid
that in such a high profile job Laar could outshine Ansip,
Reform
refused to cede the MFA. Ott Lumi, an IRL MP and Party Board
Member,
complained to us that even after IRL "accepted almost
everything
Reform wanted on policy, Reform still refused to compromise
on
portfolios."

13. (C) Negotiations over the Defense portfolio also had a
high profile
during the coalition negotiations. At the start of
negotiations,
former Defense Minister Sven Mikser (SDE) was a popular
favorite for
MOD. However, Mikser quickly made clear that he had no
interest in the
position, because the MOD will have to play a leading role
if/when the
GOE decides to move the controversial Bronze Soldier statue
away from
its central Tallinn location (Ref B). Reform then offered
the job to
IRL. Despite some speculation that Mart Laar might take the
job, IRL
named former Tartu University Rector Jaak Aaviksoo to head
the
ministry. The discussion within IRL over the division of

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ministerial
positions was apparently quite intense, reflecting not only
divisions
between the Res Publica and Pro Patria factions of the party
but also
sharp differences and personality conflicts within Res
Publica.

MINISTERIAL PORFOLIOS AND PARLIAMENTARY SPOILS

14. (U) The new cabinet will be as follows (bio material will
follow by
septel):

- Prime Minister: Andrus Ansip (Reform)
- Foreign Affairs: Urmas Paet (Reform)
- Defense: Jaak Aaviksoo (IRL)
- Economy: Juhan Parts (IRL)
- Justice: Rein Lang (Reform)
- Internal Affairs: Juri Pihl (SDE)
- Finance: Ivari Padar (SDE)
- Education: Tonis Lukas (IRL)
- Agriculture: Helir-Valdor Seeder (IRL)
- Environment: Jaanus Tamkivi (Reform)
- Public Administration and Regional Affairs: Vallo Reimaa (IRL)
- Social Affairs: Maret Maripuu (Reform)
- Culture: Laine Janes (Reform)
- Population and Migration: Urve Palo (SDE)

15. (U) The coalition agreement also hammered out the
following division
of parliamentary offices and committee chairmanships. Some
of the
leadership positions were filled when Parliament convened on
April 2:

- Speaker of Parliament: Ene Ergma (IRL)
- Vice Speaker: Kristina Ojuland (Reform)

- Vice Speaker: Juri Ratas (Center Party)
- Foreign Affairs Committee Chair: SDE
- Defense Committee Chair: Reform
- Economy Committee Chair: Reform
- Finance Committee Chair: Reform
- European Affairs Committee Chair: IRL
- Constitutional Affairs Committee Chair: Reform
- Legal Affairs Committee Chair: IRL
- Social Affairs Committee Chair: SDE
- Culture Committee Chair: SDE
- Rural Affairs Committee Chair: SDE

COALITION AGREEMENT - KEY ISSUES

¶6. (SBU) The coalition agreement contains the following highlights:

Foreign Policy:

- Supports the participation of Estonian troops in NATO operations, in particular Afghanistan;
- Supports the fulfillment of NATO obligations, in particular that 2% of GDP be spent on defense by 2010;
- Allows the government to seek another extension of Estonia's Iraq Mission if the UN mandate is extended;
- Promotes democracy and stability in the region through development assistance, in particular, the agreement highlights Georgia, Ukraine, and Moldova;
- Supports further EU and NATO enlargement to cement stability and democracies in the region; and
- Continue a pragmatic approach in its relationship with Russia through concrete, cross-border cooperation.

Domestic Policy:

- Calls for further cuts in income tax rates from the current 22% to 18% over the next four years;
- Pledges to improve Estonia's competitiveness and productivity;
- Pledges to craft a common Baltic energy strategy;

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- Pledges to improve education with more spending and school reforms;
- Pledges to increase public sector salaries;
- Continue to integrate Estonia's minorities, primarily the Russian-speaking minority; and
- Protect and promote the Estonian language;

¶10. (C) Comment: Despite relatively strong consensus on the issues among the coalition members, Reform and IRL have had trouble working together in the past. Only time will tell whether Reform's strong arm tactics and the acrimonious struggle over ministerial portfolios both between the coalition parties and within IRL will have any long-term impact on the stability of the new government.

GOLDSTEIN